



CITY OF DURHAM | NORTH CAROLINA

Date: November 1, 2011

To: Thomas J. Bonfield, City Manager

From: Theodore L. Voorhees, Deputy City Manager

Subject: Resolution Concerning Duke Energy Electricity Rate Increases

Executive Summary

On July 1, 2011, Duke Energy Carolinas, LLC filed an application with the North Carolina Utilities Commission to increase its North Carolina customer rates by approximately 15.5 percent across several rate classes. The rate increases used to prepare the City's FY2012 budget were substantially less than the proposed rates in the application before the Utilities Commission. General Service rates (non-residential and non-industrial customers) would increase by approximately 13.6 percent, industrial customers' bills would go up approximately 12.8 percent and lighting rates would increase by approximately 8.3 percent. These increases will have significant financial impacts on the City's budget and are not in alignment with local government budget cycles. As was done in 2009, the City has filed to intervene and be heard in this case as well.

Recommendation

The Administration recommends that the City Council adopt a Resolution concerning the various Duke Energy electricity rate increases.

Background

On July 1, 2011, Duke Energy applied to the N.C. Utilities Commission for a general rate increase to be effective August 1, 2011, but with actual implementation anticipated to be February, 2012. If approved by regulators, the increase to bills will vary depending on the type of customer. The average North Carolina residential bill -- for 1,000 kilowatt-hours of electricity is currently \$97.05. If the rate increase is approved it would increase approximately \$19 a month. General Service rates (non-residential and non-industrial customers) would increase by approximately 13.6 percent, industrial customers' bills would go up approximately 12.8 percent and lighting rates would increase by approximately 8.3 percent.

If the rate increase is approved, annual revenues from North Carolina retail operations would increase by approximately \$646 million. Adjusting base rates allows the company to realign its expenses with the price it charges customers. According to Duke Energy, approximately three-fourths of the request is driven by capital investments the company made in the Carolinas' electric system over the past two years. Since 2009, the company has spent \$4.8 billion to modernize and comply with environmental regulations across the system, and for new plant construction.

Although the company adjusts fuel costs on an annual basis, the last general rate increase in North Carolina was in 2009.

Issues and Analysis

If approved by regulators, the rate increases would affect all customer classes. This includes the City's buildings and facilities, water utility operations, and street lighting. The rate increase would impact the City's FY12 budget and future budgets. For General Service (buildings and facilities) the estimated increase for FY12 would be \$58,000 for General Fund only, with a \$115,000 annualized cost in future years. The impact to the Water and Sewer Fund is estimated to be approximately \$177,000 for the rest of FY12 and \$425,000 annually thereafter. The impact for street lighting is estimated at \$91,000 for FY12. On an annualized basis for FY13 and beyond, the additional increase would be approximately \$223,000. While the proposed rate increase for lighting as stated in the filing is presented as 8.3%, the Transportation Department staff reports that the actual increase would range from approximate 10% to 25% depending upon the particular lighting rate structure, pole type, and wiring configuration.

Opposition to this level of rate increase is recommended because the City has not budgeted for the impact in the FY12 budget. As we did at the time of the 2009 Duke Energy rate increase proposal, the City should continue to make the argument to the Utilities Commission to delay and/or extend rate increases to coincide with local government fiscal years to allow for better budgeting. Furthermore, the City's water and sewer rates have been adopted for the year. Adjusting them again to capture increased electrical charges is not desirable in the current economic climate. The current economic conditions, including other anticipated revenue uncertainty, make any additional financial commitments difficult at this time.

Duke Energy's general rate increase is predominantly based on the billions of dollars spent to add peak capacity and emissions control equipment. Since street lights do not add to Duke Energy's summer peak capacity, street light rates should not be increased due to these capital costs. Furthermore, a substantial rate increase for public lighting was already granted within the past two years. Public street lights contribute to the safety of the travelling public and are a deterrent to crime. Other sectors of the customer base should be considered for rate increases rather than the public lighting sector given these broad public benefits.

Alternatives

The City Council could elect not to address the rate increase in which case the Administration and City Attorney's Office will take no further action in this matter.

Financial Impacts

The total annualized increased cost to the City budget is estimated to be \$763,000 if the rate increases are implemented as proposed.

SDBE Summary

N/A

Attachments:

Resolution